

“Ask the Prof”
Econ 101, Section 8, Fall Semester 2009

In these postings Professor Michael Salemi will answer some of the questions and respond to some of the comments that Econ 101 offer.

August 31, 2009 **Asked by Several Students**

Question

On page 7, the text says “Strictly speaking, your opportunity cost of engaging in an activity is the value of everything you must sacrifice to engage in it.... (If seeking a movie requires not only that you buy a \$10 ticket but also that you give up a \$20 babysitting job that you would have been willing to do for free, then the opportunity cost of seeing the film is \$30.”

But later the authors qualify their answer: “We must warn you, however, that some economists use the term “opportunity cost” to refer only to the implicit value of opportunities foregone. Thus, in the example just discussed, these economists would not include the \$10 ticket price when calculating the opportunity cost of seeing the film.”

The Prof Responds

In our course, we will use the strict definition of opportunity cost because it makes more sense and is logically more consistent with the definition of opportunity cost as the value of the next best alternative. If you decide to see a film, then you give up both the goods you could have purchased with the film’s admission price and the activity you could have engaged in if you had not spent the time watching the film. In the case of the above example, you give up both \$10 worth of goods and \$20 of additional goods you could buy with your babysitting earnings. The total is \$30 and that is a better measure of opportunity cost than \$20. After all, if you did not have a babysitting opportunity or anything of value to do with your time, the cost of seeing the film would not be zero—it would still be whatever else you could buy with the price of a ticket to the film.

By the way, if the kids you are babysitting for are sufficiently difficult that your reservation price for babysitting is \$18, then the opportunity cost of the film is \$12 which is the sum of the \$10 ticket price and the \$2 surplus you could have earned by babysitting.

September 3, 2009 **Martin Lukacs**

“I have a comment on the W.O.N and your lecture in class. Although I found the graphs you showed us fascinating, and the reading by Smith interesting, I have to question some of the concepts. From my view general economics often does not look at the big picture. Sometimes quality is much more important than quantity. In the 18th, 19th, and even the beginning of the 20th century, because of economics, factories used optimization and comparative advantages to find out how they could make the most number of products in the least amount of time. It is a fact that the factory workers often were much more "productive" if they only had to do one small task repeatedly, instead of the whole operation of making...a chair for example; however, from what I read, I learned that in time factories found out that this was the wrong path to take. In terms of production, their production (number of chairs in this case) was going up, but the workers would get immensely bored while working and the quality of work would fall greatly. It is true that dividing the work into 20 parts would allow the factory to create, let's say, 1500 chairs a day, as opposed to 800 if they did not; however, those 1500 chairs were far inferior to the 800 chairs that would have been made had they not split the work up. In addition to this factory workers soon began experiencing joint problems because they would have to execute the same exact task over and over

again, in the long term often leading to decrease in their speed of working, and sometimes early retirement.”

The Prof Responds

I agree that the 18th century workhouse must have been a horrid place to work. And I agree that there are lots of reasons to avoid too much repetition. But it does not follow that Smith was wrong and that it is better for individuals and society if the typical person is “self reliant” and a jack-of-all-trades.

Some of the issues you raise require the employer to think of the worker as an “investment” and to devise a strategy that makes investment in the worker pay off over time. In the eighteenth century, managers may have regarded workers to be easily replaced commodities. They might have them repeat the same task until they wore out and then discard them for a younger replacement. Today, jobs are complex and workers develop human capital skills and experience that make them more productive. In that case, firm managers have a stake in the worker’s well being. It is not true that they can discard experienced workers and easily replace them. Thus, the optimal employment strategy may be for the firm to keep the worker interested and healthy. However, that does not mean the manager is likely to move the worker between jobs on the assembly line and in the cafeteria. It makes more sense, and better exploits comparative advantage, for the manager to move workers among related jobs at the factory.

For me the bottom line is that there is a lot of room to exploit comparative advantage without repeating the same mindless job for every minute of the work day.

September 16, 2009 Several of Mathew Harris’ Recitation Students

In class there was a clicker question which asked what the impact would be on the price of chicken and the price of beef if there were a decrease in the price of chicken feed.

The answer presented in class was that the decrease in the price of chicken feed would cause an increase in the supply of chicken which lowered the price of chicken. In turn, the decrease in the price of chicken would cause a decrease in the demand for beef because beef is a substitute for chicken. Thus, the price of beef would fall as well.

But, say the questioners, perhaps the supply of beef will fall as well as farmers shift from chicken to beef production. Then the change in the price of beef would be indeterminate.

The Prof Responds

Let me answer in two ways.

First, it would be possible for most chicken raising operations to raise chicken production without in any way cramping beef production. Indeed, most chickens are produced by specialists that produce only chickens. Even if a farmer raised both chickens and steers, it is hard to imagine that the farmer would find it optimal to simultaneously raise chicken production and lower beef production provided that the only shock was cheaper chicken feed. For example, the farmer can hire additional labor rather than shifting “chicken workers” to “beef work.” So, I think it far fetched to argue that the supply of beef will shift back.

Second, on an exam students who thinks a question has two or no right answers is free to write their reasoning on their exam sheet and have it reviewed after the exam. A student who argued that the change

in the price of beef is ambiguous because beef supply decreases and beef demand decreases and who explained why each curve shifted would receive full marks for the question.